GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:800
ANSWERED ON:25.02.2011
RESTRICTION OF LOANS FROM FOREIGN COUNTRIES
Dashmunsi Deepa

Will the Minister of FINANCE be pleased to state:

(a) Whether the Government has imposed restrictions on the amount of loan borrowed by local companies from foreign countries;

(b) If so, the details thereof including the reasons therefor;

(c) Whether the experts are of the opinion that it is not possible to control the inflationary pressure and steep appreciation of rupee with this measure; and

(d) If so, the details thereof and the reaction of the Government thereto?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI NAMO NARAIN MEENA)

(a) & (b): Corporates including local companies incorporated under the companies Act, are free to access foreign currency loans / External Commercial Borrowings (ECB) from overseas both under automatic and approval route for permissible end-uses in terms of extant ECB policy. The maximum amount of ECB that can be raised by an eligible borrower / corporate at a time is US$ 500 million equivalent during a financial year under the automatic route. ECB in excess of US$ 500 million is considered by RBI under the approval route. The ECB policy is framed by the Government in consultation with the Reserve Bank of India for prudent external debt management.

(c) & (d): No, Sir. The rupee exchange rate is a function of supply and demand balance in the domestic foreign exchange market and the extent of intervention by the Reserve Bank of India (RBI), if any, to stabilize the exchange rate. The monthly average exchange rate of the Rupee depreciated against the US dollar from 44.50 per US dollar in April 2010 to 45.39 per US dollar in January 2011

The link between capital inflows and inflation is primarily dependent on the extent of central bank intervention, the liquidity conditions prevailing in the market and the measures taken, if any, to sterilize excess liquidity. It will not be accurate to suggest that capital inflows in debt accounts would invariably lead to higher inflation.